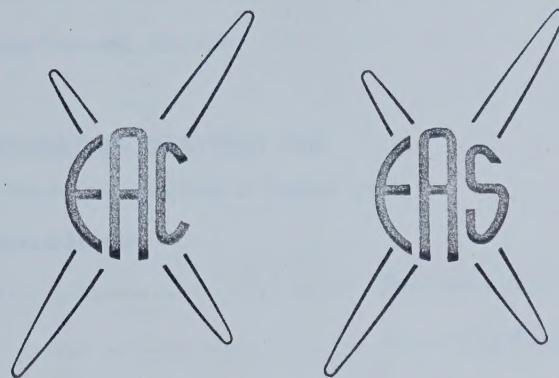


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CONSOLIDATED ANNUAL REPORT '66



ELECTRONIC ASSOCIATES OF CANADA LIMITED

and subsidiary

ELECTRONIC AUTOMATION SYSTEMS INC.

..... *Electronics for Automation since 1945*

ELECTRONIC ASSOCIATES OF CANADA LIMITED

Officers & Directors

Eric W. Leaver	President & Director
George R. Mounce	Vice-President & Secretary-Treasurer
Harold G. Meisner	Director
Jack J. Brown	Director
Norman Buchanan	Director

Bank:	Bank of Montreal, Toronto.
Auditors:	Robert W. Adams & Company, Toronto.
Solicitors:	Wahn, Mayer, Smith, Creber, Lyons, Torrance & Stevenson, Toronto.
Transfer Agents:	Montreal Trust Co., Montreal and Toronto.
Trustee:	Royal Trust Co., Montreal and Toronto.
Plant:	Willowdale (Toronto), Ontario.

ELECTRONIC AUTOMATION SYSTEMS INC.

(wholly-owned subsidiary of Electronic Associates of Canada Ltd.)

Officers & Directors

Eric W. Leaver	President & Director
George R. Mounce	Senior Vice-President & Secretary-Treasurer
Bruce W. Smith	Vice-President - Marketing
Clare H. Fraser	Manager - Manufacturing
Nelson Graves	Director

Bank:	Manufacturers and Traders Trust Co., Buffalo.
Auditors:	Price, Waterhouse Co., Buffalo.
Solicitors:	Hodgson, Russ, Andrews and Co., Buffalo.
Plant:	Town of Grand Island, New York.

ELECTRONIC AUTOMATION SYSTEMS LTD.

(wholly-owned subsidiary of Electronic Associates of Canada Ltd.)

Officers & Directors

Eric W. Leaver	Director
George R. Mounce	Director
Patrick W. Boyle	Director (Managing)

Bank:	Barclays Bank.
Auditors:	Burnett, Swayne & Co.
Solicitors:	Albert P. Halberstam, M.A., L.L.B., (CANTAB).

ELECTRONIC ASSOCIATES OF CANADA LIMITED
AND SUBSIDIARY COMPANIES

June 10th, 1967.

TO THE SHAREHOLDERS:

As you will see from the consolidated statement of this report, our sales and other revenues were the highest in our history in 1966, reaching a total of over 1.7 million dollars, an increase of over 30% from 1965. The major part of this growth occurred in our U.S. operations.

You will also see that while we still had a net loss, it is relatively small. Indeed, on a trading basis (omitting amortization of deferred charges from the previous year's operations), we made a small profit. E.A.S. Inc.'s operations were profitable, even taking its deferred charges into account.

During 1966, we obtained the order for delivery in 1967, of the largest single system in our history. The hardware and associated services will total approximately a quarter of a million dollars. The performance of one of our new developments indicates that we have another very valuable tool for paper machine control in our hands, and we look forward to growing sales of this equipment in the years to come. In 1966, we manufactured a number of large systems for our newsprint customers. The increasingly competitive situation of this industry will be a powerful factor in encouraging an increasing use of our types of process control instruments, and we look forward to a growing market.

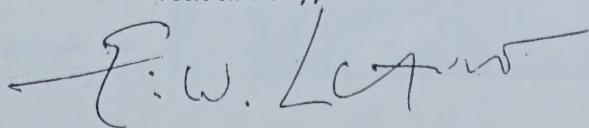
During the year, we re-organized our maintenance and other service functions under a single manager. We anticipate that this will not only improve our ability to render valuable services to our customers, but improve the profitability of these very necessary operations.

In accordance with our policy of expanding our related products line, we are negotiating for additional products to fit in with this concept and we expect to announce them to the industry this year.

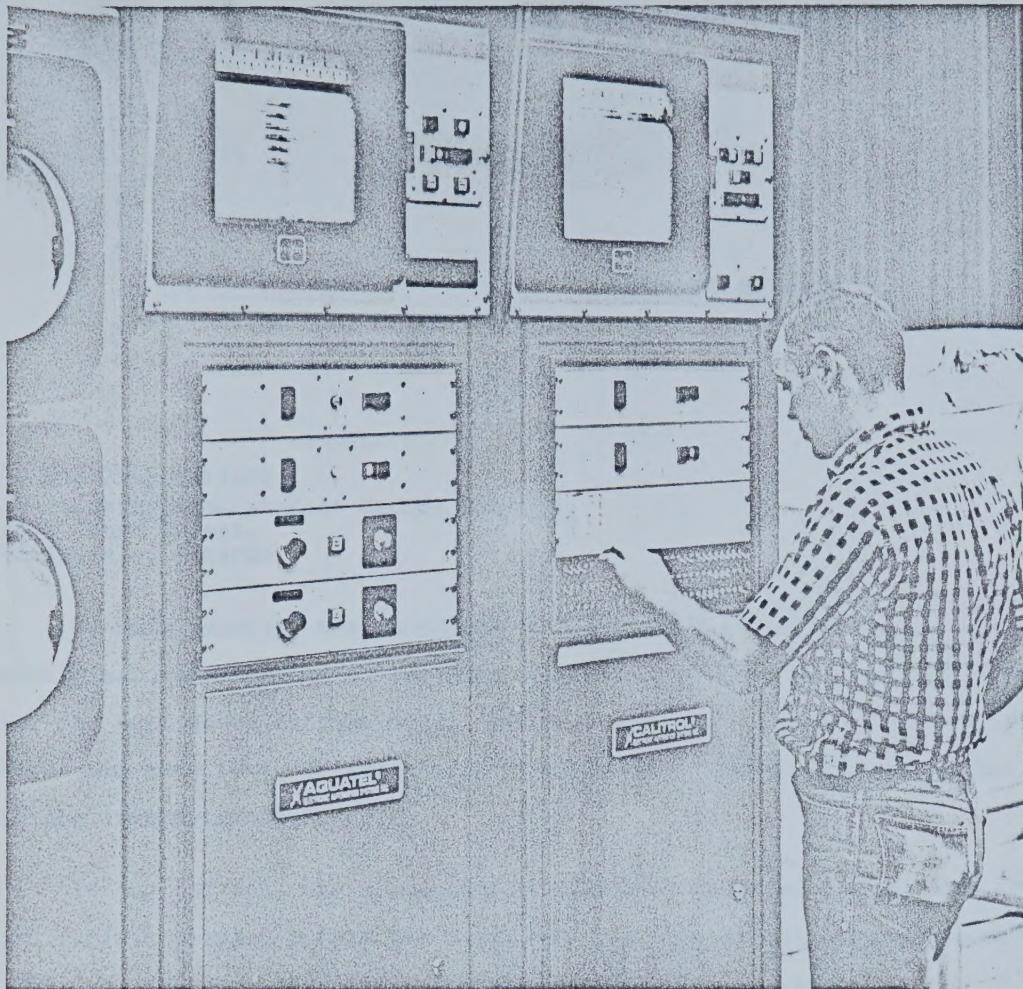
The growing acceptance and excellence of performance of our transistorized equipment has justified the large investments that we made in these products in 1965. Our target of turning the company around in 1966 has been accomplished. As of the writing of this letter, our order backlog is higher than it has been in our history, and we anticipate that our sales and other receipts will show another advance in 1967, and that we will generate a profit this year.

On behalf of the Board, we wish to extend our appreciation to our employees, our stockholders and our customers for their loyal support.

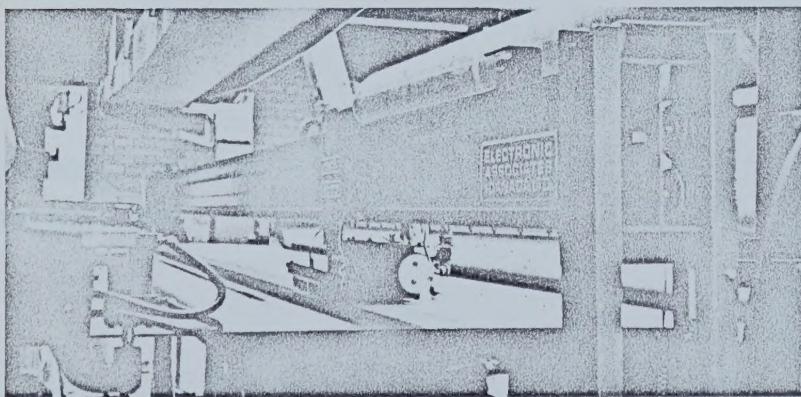
Yours sincerely,



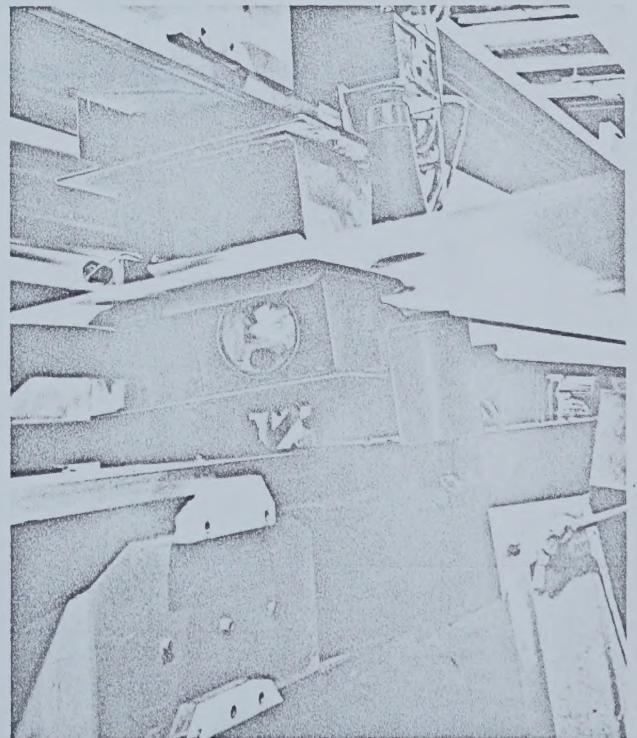
Eric W. Leaver,
President.



The Control Cabinets for Moisture and Caliper Measurement and Control Systems in the Steilacoom (Washington) Mill of the West Tacoma Newsprint Company.



The Traversing System and Measuring Heads of a Moisture and Basis Weight System in the New Richmond (Quebec) Mill of the Bathurst Paper Company.



Basis Weight, Moisture, Caliper and Formation Measuring Heads on the Traversing System at the West Tacoma Newsprint Company.

**ELECTRONIC ASSOCIATES OF CANADA LIMITED
AND SUBSIDIARY COMPANIES**

AUDITORS' REPORT

To the Shareholders,
Electronic Associates of Canada Limited,
4616 Yonge Street,
Willowdale, Ontario.

We have examined the consolidated balance sheet of Electronic Associates of Canada Limited and subsidiary companies as at December 31, 1966, and the consolidated statements of loss and deficit for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of loss and deficit present fairly the financial position of the company and subsidiaries as at December 31, 1966, and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Respectfully submitted,

(SIGNED) ROBERT W. ADAMS & COMPANY
CHARTERED ACCOUNTANTS.

TORONTO, ONTARIO.

MAY 31, 1967.

ELECTRONIC ASSOCIATES
AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET
(With Comparative Figures)

ASSETS

	<u>1966</u>	<u>1965</u>
CURRENT ASSETS		
Cash	\$ 7,710	\$ 7,929
Accounts receivable, trade	466,235	282,190
Inventories at the lower of cost or net realizable value	334,330	393,741
Other receivables and prepaid items	<u>13,888</u>	<u>18,484</u>
	<u>\$ 822,163</u>	<u>\$ 702,344</u>
FIXED ASSETS		
Property, plant and equipment, at cost	\$ 278,374	\$ 276,593
Less accumulated depreciation	<u>86,013</u>	<u>74,270</u>
	<u>\$ 192,361</u>	<u>\$ 202,323</u>
DEFERRED CHARGES AND OTHER ASSETS		
Development costs, Note 2	\$ 94,142	\$ 125,557
Discount on issue of 5% sinking fund mortgage debentures, Series A	22,750	22,750
Deferred charges, Note 3	25,438	27,206
Goodwill	8,022	8,022
Patents, copyrights and trademarks	<u>2</u>	<u>2</u>
	<u>\$ 150,354</u>	<u>\$ 183,537</u>
	<u>\$1,164,878</u>	<u>\$1,088,204</u>

APPROVED ON BEHALF OF THE BOARD:

(Signed) E.W. LEAVER, Director

(Signed) G.R. MOUNCE, Director

OF CANADA LIMITED
COMPANIES

AS AT DECEMBER 31, 1966
(for the Year 1965)

LIABILITIES

	<u>1966</u>	<u>1965</u>
CURRENT LIABILITIES		
Owing to banks, Note 4	\$ 106,659	\$ 130,888
Accounts payable, trade	222,330	280,136
Advances from customers	51,061	81,722
Current portion of long-term debt	8,953	8,530
Other payables and accrued items	<u>110,986</u>	<u>56,939</u>
	\$ 499,989	\$ 558,215
LONG-TERM DEBT, Note 5	<u>565,398</u>	<u>462,466</u>
Total Liabilities	<u>\$1,065,387</u>	<u>\$1,020,681</u>

SHAREHOLDERS' EQUITY

COMMON SHARES, Note 6

Authorized

750,000 shares of no par value

Issued and Paid

600,000 shares at	\$ 221,503	\$ 221,503
<u>53,828</u> shares issued during the year at	<u>53,828</u>	<u></u>
<u>653,828</u> Total issued and paid	<u>\$ 275,331</u>	<u>\$ 221,503</u>

DEFICIT

DONATED CAPITAL

The Notes to the Consolidated Financial Statements on pages 7 and 8 are an integral part of this statement.

**ELECTRONIC ASSOCIATES OF CANADA LIMITED
AND SUBSIDIARY COMPANIES**

CONSOLIDATED STATEMENT OF LOSS
FOR THE YEAR ENDED DECEMBER 31, 1966
(With Comparative Figures for the Year 1965)

	<u>1966</u>	<u>1965</u>
Sales, servicing and other operating revenues	<u>\$1,708,829</u>	<u>\$1,290,967</u>
Deduct		
Cost of products sold	\$1,317,638	\$1,038,106
Selling expenses	198,311	312,635
Administrative and general expenses	170,924	170,638
Amortization of deferred charges	9,410	13,654
Interest on long-term debt	<u>34,406</u>	<u>28,340</u>
	<u>\$1,730,689</u>	<u>\$1,563,373</u>
Net Loss	<u>\$ 21,860</u>	<u>\$ 272,406</u>

The above costs, expenses and operating results
include the following charges

	<u>1966</u>	<u>1965</u>
Executive officers' salaries	\$ 30,000	\$ 30,000
Depreciation	12,972	13,166

CONSOLIDATED STATEMENT OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1966

(With Comparative Figures for the Year 1965)

	<u>1966</u>	<u>1965</u>
Balance at beginning of year	\$ 162,069	\$ (110,337)
Net loss for the year	<u>21,860</u>	<u>272,406</u>
Balance at end of year	<u>\$ 183,929</u>	<u>\$ 162,069</u>

The Notes to the Consolidated Financial Statements on pages 7 and 8 are an integral part of this statement.

**ELECTRONIC ASSOCIATES OF CANADA LIMITED
AND SUBSIDIARY COMPANIES**

NOTES 1 TO 7 TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 1966

1. (a) The subsidiary companies consolidated in the financial statements are (i) Electronic Automation Systems, Inc., Grand Island, New York, a wholly-owned non-resident company, (ii) Electronic Automation Systems Ltd., London England, a wholly-owned non-resident company, presently non-operating, and (iii) Electronic Automation Systems Canada Limited, Willowdale, Ontario, a wholly-owned resident company, presently non-operating.
- (b) The financial statements of the wholly-owned non-resident subsidiary companies have been converted into Canadian dollars at the average rate of exchange for the year ended December 31, 1966, there being no significant change in the rate from that prevailing at the date of acquisition of the fixed assets and long-term debt incurred by the subsidiary companies.

2. DEFERRED DEVELOPMENT COSTS - \$94,142

\$31,415 has been included in the cost of products sold during 1966. In the opinion of management, the company has on hand and can reasonably anticipate receiving sufficient volume of profitable orders, over the next three years, to permit the amortization of the balance of these costs.

3. DEFERRED CHARGES - \$25,438

Incorporation Costs and Pre-Operating Expenses	
U.S. subsidiary company (after current year's write off)	\$ 2,400
English subsidiary company	7,612
Canadian subsidiary company	504
Corporate re-organization costs of parent company	<u>14,922</u>
	Total
	<u>\$25,438</u>

4. OWING TO BANKS - \$106,659

Bank loans are secured by a registered general assignment of accounts receivable and the U.S. subsidiary company's inventories	\$100,628
Bank overdraft	6.031
	Total
	<u>\$106,659</u>

5. LONG-TERM DEBT (LESS CURRENT PORTION) - \$565,398

ELECTRONIC ASSOCIATES OF CANADA LIMITED (PARENT)

5% Sinking fund mortgage debentures, Series A due May 1, 1975	\$325,000
6% Second floating charge convertible debentures, due December 31, 1971	112,000
6% First mortgage	<u>56,000</u>
	\$493,000

ELECTRONIC AUTOMATION SYSTEMS, INC. (SUBSIDIARY)

6% First mortgage due March, 1969	\$ 45,097
2 $\frac{1}{2}$ % Second mortgage due September, 1976	25,037
6% Third mortgage due September, 1969	<u>11,217</u>
	\$ 81,351
Less current portion	<u>8,952</u>
	Total
	<u>\$565,398</u>

(a) 5% Sinking Fund Mortgage Debentures, Series A: (due May 1, 1975)

- (i) Interest on these debentures has been paid to November 1, 1966. The payments of principal to the trustee of the sinking fund are due May 1 each year, but in accordance with provisions in the Indenture, pertaining to earnings, no payments have been required.
- (ii) These debentures are secured under and pursuant to the Indenture which provides that it constitutes: (1) a fixed and specific first pledge on all the outstanding capital stock of the company's subsidiary, Electronic Automation Systems, Inc.; (2) a fixed and specific mortgage, pledge or charge on the company's lands, buildings, fixed plant, fixed machinery and fixed equipment (subject, however, to the first mortgage bearing interest at the rate of 6% per annum on which there is now owing \$56,000 for principal); and (3) a first floating charge on the undertaking and assets of the company not specifically mortgaged or already assigned.

(b) 6% Second Floating Charge Convertible Debentures: (due December 31, 1971)

- (i) Interest is payable half yearly on June 1 and December 31.
- (ii) These debentures are secured by a second floating charge on the undertaking and all the property and assets of the company.
- (iii) These debentures, at the option of the holder and prior to the earlier of December 31, 1971 or the date of prepayment, may be converted into common shares without nominal or par value in the capital stock of the company at the rate of 1,000 of such shares for each \$1,000 principal amount of debenture so converted.

(c) 6% First Mortgage

The term of this mortgage has expired, but with the consent of the mortgagee has been allowed to stand.

**ELECTRONIC ASSOCIATES OF CANADA LIMITED
AND SUBSIDIARY COMPANIES**

NOTES 1 TO 7 TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 1966

6. STOCK OPTIONS

The company has granted the following options on 50,000 shares of the remaining 96,172 unissued common shares:

(a) To Management:	25,000	shares at .50 per share
	15,000	shares at .75 per share
	40,000	shares for four years from December 1, 1963, and at \$1.00 per share for a further four years
(b) To Another Individual:	10,000	shares at .50 per share for four years from December 1, 1963
	Total	<u>50,000</u>

In March 1967 management elected to take up its option on the above 40,000 shares of common stock.

7. COMMITMENTS

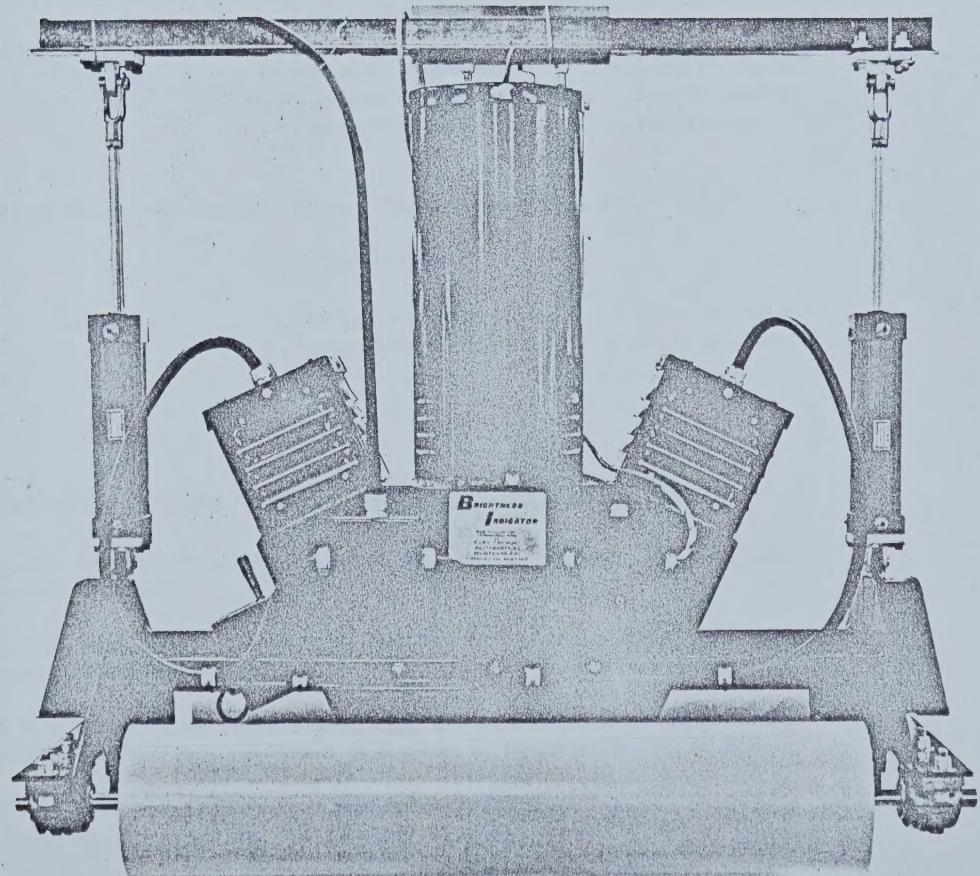
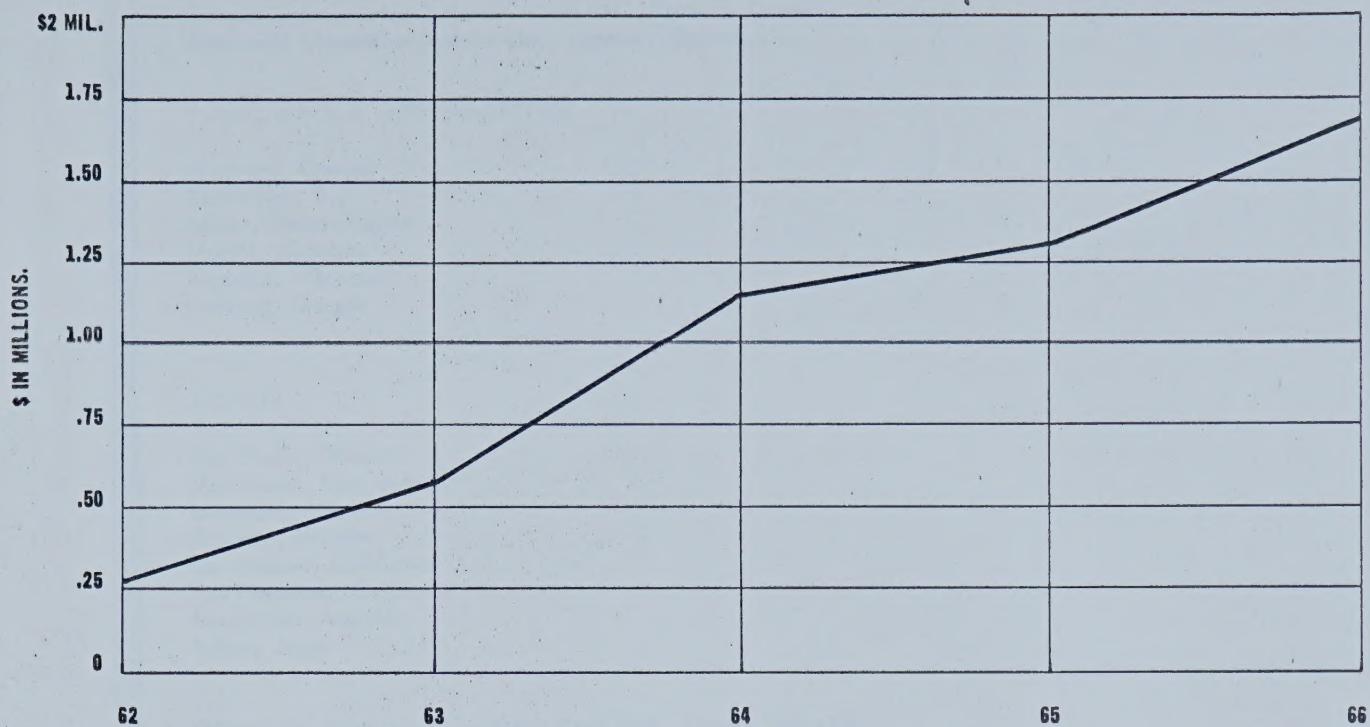
The U.S. subsidiary company has entered into a royalty agreement for the rights to produce certain equipment. The agreement provides for minimum annual payments of \$35,000 for the years 1967 through 1971 and \$15,000 in 1972.

CONSOLIDATED SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED DECEMBER 31, 1966

(With Comparative Figures for the Year 1965)

	<u>1966</u>	<u>1965</u>
SOURCE OF FUNDS		
Non-cash expenses deducted in determining net loss for the year	\$ 12,972	\$ 13,166
- Depreciation	9,410	13,942
- Amortization of deferred charges	<u>31,415</u>	<u>31,389</u>
- Amortization of development costs	\$ 53,797	\$ 58,497
Sale of second floating charge debentures	112,000	-
Proceeds from sale of common shares	<u>53,828</u>	<u>-</u>
	<u>\$219,625</u>	<u>\$ 58,497</u>
APPLICATION OF FUNDS		
Net loss	\$ 21,860	\$ 272,406
Acquisition of fixed assets	3,010	10,508
Increase in deferred charges	7,642	-
Development costs incurred	-	156,946
Repayment of long-term debt	<u>9,068</u>	<u>8,622</u>
	<u>\$ 41,580</u>	<u>\$ 448,482</u>
INCREASE (DECREASE) IN WORKING CAPITAL		
Working capital at beginning of year	\$178,045	\$(389,985)
Working capital at end of year	<u>144,129</u>	<u>534,114</u>
	<u>\$322,174</u>	<u>\$ 144,129</u>

CONSOLIDATED NET SALES.



A New Pulp Brightness Tester as supplied to a number of mills of one of the World's largest paper companies.

SUBSIDIARIES

Electronic Automation Systems Inc., Grand Island, New York.
Electronic Automation Systems Canada Ltd., Toronto, Canada.
Electronic Automation Systems Ltd., London, England.

E.A.C. & E.A.S. REPRESENTATIVES

Montreal, Quebec
Vancouver, B.C.
Boston, Massachusetts
Mobile, Alabama
Appleton, Wisconsin
Portland, Oregon

AGENTS

Port Credit, Ontario
Morristown, New Jersey
Richmond, Virginia
Chicago, Illinois
Los Angeles, California
San Francisco, California
Melbourne, Australia
Tokyo, Japan

Willowdale, Ontario: (Area Code 416) Phones 223-4220
223-4221
223-4222
(Area Code 716) 856-0044
Cable "ELECTA"

Contacts - Manager - Marketing - Bruce W. Smith
Manager - Customer Services - Bern E. Stapley
Purchasing Agent - Jim Spooner

Grand Island, New York: Phone 773-7525 (Area Code 716)

Cable "EASINC"

Contacts - Manager - Manufacturing - Clare H. Fraser
Senior Systems Engineer - G.J. Leighton

PATENTS, TRADEMARKS, EXCLUSIVE MANUFACTURING RIGHTS

E.A.C. and E.A.S. are the owners of more than sixty patents and trademarks in nine countries.

E.A.C. and E.A.S. are licensors and licensees of patents in Canada, the United States and Mexico.

E.A.S. has exclusive manufacturing rights for the new precision paper caliper gauge developed by Consolidated Papers Inc. of Wisconsin Rapids, Wisconsin.

E.A.S. has exclusive manufacturing rights for the Paper Machine Monitoring System developed by the Oxford Paper Company, West Carrollton, Ohio.

E.A.C. and E.A.S. have exclusive manufacturing rights for the uranium ore sorters, the colour ore sorter and the Wate sorters from Ore Sorters (Canada) Ltd. and Material Separators Inc.

